



**Joint Legislative Audit Committee**  
**Office of the Auditor General**



---

**FINANCIAL AUDIT REPORT**  
**FRANCHISE TAX BOARD**  
**YEAR ENDED JUNE 30, 1978**

The regulations of the Federal Office of Revenue Sharing require governments receiving revenue sharing funds to have audits of their financial statements not less than once every three years. This audit assists in fulfilling the audit requirements necessary to continue California's eligibility for federal revenue sharing funds.

Our examination was made in accordance with generally accepted auditing standards and included studying and evaluating the system of internal control. This study and evaluation disclosed several conditions which we believe to be weaknesses and were considered in determining the nature, timing, and extent of our audit tests. Presentation of these conditions, however, does not modify our opinion on the financial statements.

**REPORT TO THE**  
**CALIFORNIA LEGISLATURE**

REPORT OF THE  
OFFICE OF THE AUDITOR GENERAL  
TO THE  
JOINT LEGISLATIVE AUDIT COMMITTEE

453

FINANCIAL AUDIT REPORT  
FRANCHISE TAX BOARD  
YEAR ENDED JUNE 30, 1978

AUGUST 1979



# California Legislature

## Joint Legislative Audit Committee

GOVERNMENT CODE SECTION 10500 et al

SENATORS  
ALBERT RODDA  
PAUL CARPENTER  
JOHN NEJEDLY  
ROBERT PRESLEY

ASSEMBLYMEN  
RICHARD ROBINSON  
DANIEL BOATWRIGHT  
LEROY GREENE  
BRUCE NESTANDE

□ STATE CAPITOL  
SACRAMENTO 95814  
(916) 323-1168

□ 925 L STREET  
SUITE 750  
SACRAMENTO 95814  
(916) 445-0255

RICHARD ROBINSON  
CHAIRMAN

August 27, 1979

453

The Honorable Speaker of the Assembly  
The Honorable President pro Tempore of the Senate  
The Honorable Members of the Senate and the  
Assembly of the Legislature of California

Members of the Legislature:

Your Joint Legislative Audit Committee respectfully submits the Auditor General's financial audit report of the Franchise Tax Board, Year Ended June 30, 1978.

The auditors are Robert Hamric, CPA; George Fracchia; Del Pelagio, CPA; Ulrich Pelz; Kenneth Pierce; and Robyn Graves.

Respectfully submitted,

RICHARD ROBINSON  
Assemblyman, 72nd District  
Chairman, Joint Legislative  
Audit Committee

## TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTION	1
AUDITOR'S OPINION	3
FINANCIAL STATEMENTS	
COMBINED BALANCE SHEET	4
GENERAL FUND	
PERSONAL INCOME TAX FUND	
BANK AND CORPORATION TAX FUND	
TRUST ACCOUNTS	
GENERAL FIXED ASSETS	
GENERAL LONG TERM DEBT	
COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN OPERATING CLEARING AND FUND BALANCE	5
GENERAL FUND	
PERSONAL INCOME TAX FUND	
BANK AND CORPORATION TAX FUND	
TRUST ACCOUNTS	
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN OPERATING CLEARING - BUDGET AND ACTUAL	6
GENERAL FUND	
NOTES TO FINANCIAL STATEMENTS	7
OTHER INFORMATION	14

## INTRODUCTION

In response to a resolution of the Joint Legislative Audit Committee and in compliance with federal Office of Revenue Sharing regulations, we have conducted a financial audit of the Franchise Tax Board (FTB). This audit was conducted under the authority vested in the Auditor General by Section 10527 of the Government Code.

The Franchise Tax Board is responsible for the administration of the Personal Income Tax Law and the Bank and Corporation Tax Law, Senior Citizens and Property Tax Assistance Law, and the Political Reform Act of 1974. The board is composed of the State Controller, the Director of Finance, and the Chairman of the State Board of Equalization. The Executive Officer is the chief administrative official.

The Franchise Tax Board has these objectives:

- To increase public confidence, promote accurate self-assessments, and encourage maximum voluntary compliance by consistent and equitable administration of the Personal Income Tax Law and the Bank and Corporation Tax Law;
- To encourage voluntary and timely remittance of taxes which are held in trust by employers through the personal income tax withholding program;

- To supervise payment of financial assistance to low income California renters and to homeowners who are at least 62 years old and who meet specified income limitations;
- To audit statements and reports of lobbyists, candidates, and campaign committees filed with the Secretary of State;
- To administer Renters' Tax Relief to qualified renters through a personal income tax program in which renters' credit is claimed as a refundable tax credit.

The programs of the Franchise Tax Board are funded by appropriations from the State General Fund and by reimbursements for electronic data processing (EDP) services from state agencies and others.

AUDITOR'S OPINION

To the Joint Legislative Audit Committee of the California Legislature:

We have examined the combined balance sheet of the Franchise Tax Board as of June 30, 1978, and the related statements of revenues, expenditures, and changes in operating clearing and fund balance for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

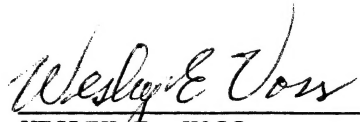
In our opinion, the accompanying financial statements present fairly the financial position of the Franchise Tax Board as of June 30, 1978, and the results of its operations and changes in operating clearing and fund balance accounts for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

The column amounts on the accompanying combined balance sheet captioned "Total Memorandum Only" for June 30, 1978, are not necessary for a fair presentation of the financial statements, but are presented as additional analytical data and, in our opinion, are fairly stated in all material respects in relation to the financial statements taken as a whole.

The column amounts on the accompanying combined balance sheet and combined statement of revenues, expenditures, and changes in operating clearing and fund balance for the year ended June 30, 1977, which are presented for comparative purposes only, were not audited by us and accordingly we do not express an opinion on them.

In connection with our examination, we also (1) made a study and evaluation of the Franchise Tax Board's system of internal accounting control and (2) performed tests of compliance with the Revenue Sharing and Antirecession Fiscal Assistance Acts and regulations as required by the Office of Revenue Sharing, U. S. Department of the Treasury.

Based on these procedures, we noted no instance of noncompliance with the regulations. We communicated this report's findings and recommendations regarding the system of internal accounting control to the Franchise Tax Board.

  
WESLEY E. VOSS  
Assistant Auditor General

Date: March 14, 1979

Staff: Robert Hamric, CPA	Ulrich Pelz
George Fracchia	Kenneth Pierce
Del Pelagio, CPA	Robyn Graves

FRANCHISE TAX BOARD  
COMBINED BALANCE SHEET  
ALL FUND TYPES AND ACCOUNT GROUPS

JUNE 30, 1978  
(With Unaudited Amounts for 1977)

ASSETS	GOVERNMENTAL FUND TYPES GENERAL AND SPECIAL REVENUE			FIDUCIARY FUND TYPE	ACCOUNT GROUP		TOTAL (Memorandum Only)	
	General	Personal Income Tax	Bank and Corporation Tax	Trust	General Fixed Assets	General Long Term Debt	June 30, 1978	June 30, 1977
Cash	\$ 74,478	\$ 47,826	\$ 9,489	\$1,633,265	\$ -	\$ -	\$ 1,765,058	\$ 1,896,919
Cash in Revolving Fund	126,500	-	-	-	-	-	126,500	181,542
Cash on Hand in Agency	20,090	930,013	318,732	17,459	-	-	1,286,294	1,572,381
Cash in State Treasury	-	52,325,595	8,377,692	-	-	-	60,703,287	8,637,670
Cash in Transit to State Treasury	-	1,189,563	726,519	-	-	-	1,916,082	1,624,870
Accounts Receivable (Net of Allowance for Deferred Accounts--\$115,876,794 in 1978 and \$107,614,422 in 1977) (Note 2)	798,810	75,986,619	18,766,513	-	-	-	95,551,942	76,095,926
Accounts Receivable--Withholding (Net of Allowance for Deferred Accounts-- \$12,393,723 in 1978 and \$16,066,327 in 1977)(Note 3)	-	17,300,000	-	-	-	-	17,300,000	12,800,000
Prepayments to Other Funds	51,743	-	-	-	-	-	51,743	482,838
Expense Advances to Employees	44,240	-	-	-	-	-	44,240	52,578
Due from Employment Development Contingent Fund	-	964,964	-	-	-	-	964,964	-
Securities and Other Property Held in Trust	-	-	-	99,272	-	-	99,272	93,020
Due from General Fund (Controller's Accountability)(Note 9)	1,526,845	-	-	-	-	-	1,526,845	-
Due from Unemployment Compensation Disability Fund	665,627	2,275,551	-	-	-	-	2,941,178	-
Equipment (Note 5)	-	-	-	-	1,473,771	2,675,185	4,148,956	1,119,232
Advances to Architecture Revolving Fund	-	-	-	-	102,000	-	102,000	-
TOTAL ASSETS	\$ 3,308,333	\$151,020,131	\$28,198,945	\$1,749,996	\$1,575,771	\$2,675,185	\$188,528,361	\$104,556,976
LIABILITIES, ENCUMBRANCES OUTSTANDING AND FUND EQUITY								
Liabilities:								
Accounts Payable (Note 4)	\$ 4,402,955	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,402,955	\$ 2,365,977
Refunds Payable	-	4,408	2,468,055	-	-	-	2,472,463	5,014,281
Liability for Installment Purchase Contract (Note 5)	-	-	-	-	-	2,675,185	2,675,185	-
Miscellaneous Credit Balances in Taxpayers' Accounts (Note 2)	-	17,386,225	1,466,513	-	-	-	18,852,738	12,760,711
Due to Unemployment Fund (Note 6)	-	13,616,438	-	-	-	-	13,616,438	-
Due to General Fund (Controller's Accountability) (Note 7)	-	120,013,060	24,264,377	-	-	-	144,277,437	82,358,164
Due to Personal Income Tax Fund	42,617	-	-	-	-	-	42,617	-
Uncleared Collections	1,678	-	-	-	-	-	1,678	3,304
TOTAL LIABILITIES	4,447,250	151,020,131	28,198,945	-	-	2,675,185	186,341,511	102,502,437
Encumbrances Outstanding (Note 8)	427,420	-	-	-	-	-	427,420	-
Fund Equity:								
Investment in General Fixed Assets	-	-	-	-	1,473,771	-	1,473,771	1,119,232
Fund Balance:								
Designated for Construction	-	-	-	-	102,000	-	102,000	-
Designated for Special Purposes	-	-	-	1,749,996	-	-	1,749,996	1,935,366
Operating Clearing (Note 9)	(1,566,337)	-	-	-	-	-	(1,566,337)	(1,000,059)
TOTAL FUND EQUITY	(1,566,337)	-	-	1,749,996	1,575,771	-	1,759,430	2,054,539
TOTAL LIABILITIES ENCUMBRANCES OUTSTANDING AND FUND EQUITY	\$ 3,308,333	\$151,020,131	\$28,198,945	\$1,749,996	\$1,575,771	\$2,675,185	\$188,528,361	\$104,556,976

The notes to the financial statements are an integral part of this statement.



FRANCHISE TAX BOARD  
COMBINED STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN OPERATING CLEARING AND FUND BALANCE  
GOVERNMENTAL FUND TYPES AND TRUST ACCOUNTS

FOR THE FISCAL YEAR ENDED JUNE 30, 1978  
(With Unaudited Amounts for 1977)

	GOVERNMENTAL FUND TYPES			FIDUCIARY FUND TYPE	TOTAL (Memorandum Only)	
	General	Personal Income Tax	Bank and Corporation Tax	Trust Accounts	Year Ended	
					1978	1977
<u>Sources of Financial Resources</u>						
Revenues:						
Personal Income Tax (Note 7)	\$ --	\$4,652,783,645	\$ --	\$ --	\$4,652,783,645	\$3,761,796,534
Bank and Corporation Tax (Note 7)	--	--	2,082,266,531	--	2,082,266,531	1,641,500,120
Miscellaneous	36,134	--	--	--	36,134	50,246
Prior Year Income Adjustments	--	2,746,481	(4,679,668)	--	(1,933,187)	10,028,415
Total Revenues	36,134	4,655,530,126	2,077,586,863	--	6,733,153,123	5,413,375,315
Other Sources:						
Support Appropriation (Note 11)	59,184,751	--	--	--	59,184,751	55,453,009
Reimbursements (Note 12)	4,785,408	--	--	--	4,785,408	3,962,389
Other Appropriations:						
Senior Citizens Property Tax Assistance	78,464,153	--	--	--	78,464,153	52,541,889
Senior Citizens Renters' Tax Assistance	6,851,398	--	--	--	6,851,398	--
Prior Year Adjustments (Note 14)	230,553	--	--	--	230,553	(120,061)
Transfers from Other Funds (Note 13)	564,429,459	--	--	--	564,429,459	--
Receipts for Depositors	--	--	--	1,830,250	1,830,250	2,299,493
Securities Received from Individuals	--	--	--	204,695	204,695	35,100
Total Sources of Financial Resources	713,981,856	4,655,530,126	2,077,586,863	2,034,945	7,449,133,790	5,527,547,134
<u>Uses of Financial Resources</u>						
Expenditures:						
Current Support Appropriation	64,276,752	--	--	--	64,276,752	59,314,009
Financial Assistance	85,334,682	--	--	--	85,334,682	52,528,985
Total Expenditures	149,611,434	--	--	--	149,611,434	111,842,994
Transfers to the General Fund (State Controller's Accountability) (Note 7)	--	4,655,530,126	2,077,586,863	--	6,733,116,989	5,413,325,069
Payments to and for Depositors	--	--	--	2,021,872	2,021,872	1,511,341
Securities Sold or Released to Individuals	--	--	--	158,063	158,063	286,383
Securities Revalued	--	--	--	40,380	40,380	--
Other Uses - Refunds (Note 13)	564,936,700	--	--	--	564,936,700	--
Total Uses of Financial Resources	714,548,134	4,655,530,126	2,077,586,863	2,220,315	7,449,885,438	5,526,965,787
Net Increase (Decrease) in Operating Clearing/Fund Balance	(566,278)	--	--	(185,370)	(751,648)	581,347
Operating Clearing/Fund Balance - July 1	(1,000,059)	--	--	1,935,366	935,307	353,960
Operating Clearing/Fund Balance - June 30 (Note 9)	\$ (1,566,337)	\$ --	\$ --	\$1,749,996	\$ 183,659	\$ 935,307

The notes to the financial statements are an integral part of this statement.

FRANCHISE TAX BOARD  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN OPERATING CLEARING - BUDGET AND ACTUAL  
GENERAL FUND

FOR THE FISCAL YEAR ENDED JUNE 30, 1978  
(With Unaudited Amounts for 1977)

	1978			1977
	Budget As Adjusted	Actual	Over (Under) Budget	Actual
<u>Sources of Financial Resources</u>				
Support Appropriation (Note 11)	\$ 59,808,302	\$ 59,184,751	\$ ( 623,551)	\$ 55,453,009
Reimbursements (Note 12)	4,812,481	4,785,408	( 27,073)	3,962,389
Other Appropriations				
Senior Citizens Property Tax Assistance	79,500,000	78,464,153	( 1,035,847)	52,541,889
Senior Citizens Renters' Tax Assistance	20,000,000	6,851,398	(13,148,602)	-
Miscellaneous	-	36,134	36,134	50,246
Prior Year Adjustments (Note 14)	-	230,553	230,553	(120,061)
Total Sources of Financial Resources - As Budgeted	<u>\$164,120,783</u>	149,552,397	<u>\$(14,568,386)</u>	111,887,472
Transfers from Other Funds (Note 13) <sup>a/</sup>		564,429,459		-
Total Sources of Financial Resources		<u>713,981,856</u>		<u>111,887,472</u>
<u>Uses of Financial Resources</u>				
Expenditures:				
Current Support Appropriations:				
Personal Services	\$ 43,732,674	43,700,143	\$ ( 32,531)	40,435,584
Communications	1,400,507	1,400,507	-	836,798
Contractual Services - Employers				
Withholding	8,542,136	8,429,709	( 112,427)	7,453,346
Contractual Services - Other	249,137	244,325	( 4,812)	211,886
EDP Equipment	2,108,853	2,107,877	( 976)	2,321,738
Employee Development	169,299	169,299	-	137,184
Employee Relocation	117,450	117,450	-	61,535
Equipment	479,825	456,178	( 23,647)	284,834
Facilities Expense	2,271,419	2,271,419	-	2,227,206
General Expense	820,910	806,962	( 13,948)	750,167
Minor Equipment	231,942	231,942	-	161,335
Multi-State Tax Commission Dues	42,839	42,839	-	38,214
Postage	1,836,403	1,836,403	-	1,713,855
Printing	1,546,367	1,496,596	( 49,771)	1,605,888
Travel-in-State	651,722	596,477	( 55,245)	495,438
Travel-out-of-State	276,100	274,406	( 1,694)	249,647
Minor Capital Outlay	143,200	94,220	( 48,980)	-
Political Reform Act	-	-	-	329,354
Total Current Support Appropriations	<u>64,620,783</u>	<u>64,276,752</u>	<u>( 344,031)</u>	<u>59,314,009</u>
Financial Assistance:				
Senior Citizens Property Tax Assistance	79,500,000	78,485,166	( 1,014,834)	52,528,985
Senior Citizens Renters' Tax Assistance	20,000,000	6,849,516	(13,150,484)	-
Total Financial Assistance	<u>99,500,000</u>	<u>85,334,682</u>	<u>(14,165,318)</u>	<u>52,528,985</u>
Total Expenditures	<u>\$164,120,783</u>	149,611,434	<u>\$(14,509,349)</u>	111,842,994
Other Uses - Refunds (Note 13)		564,936,700		-
Total Uses of Financial Resources		<u>714,548,134</u>		<u>111,842,994</u>
Net Increase (Decrease) in Operating Clearing During the Year		(566,278)		44,478
Operating Clearing - July 1		<u>(1,000,059)</u>		<u>(1,044,537)</u>
Operating Clearing - June 30 (Note 9)		<u>\$ (1,566,337)</u>		<u>\$ (1,000,059)</u>

<sup>a/</sup> Transfers from other funds are not included in the legislative budget act.

The notes to the financial statements are an integral part of this statement.

FRANCHISE TAX BOARD  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 1978

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The preceding financial statements reflect the financial position and the results of operations of the Franchise Tax Board. The accounts are maintained in the General Fund, in the Personal Income Tax Fund, in the Bank and Corporation Tax Fund, and in trust accounts.

The statements have been prepared in conformity with generally accepted accounting principles applicable to state and local governments as prescribed by the American Institute of Certified Public Accountants and the National Council on Governmental Accounting.

General Fund

The Franchise Tax Board maintains a separate set of accounting records for support appropriation, Senior Citizens Property Tax Assistance, Senior Citizens Renter's Assistance and Tax Relief and Refund Account. The board accounts for only its portion of the State's General Fund. The State Controller maintains central accounts for the General Fund and publishes consolidated General Fund statements.

Income

Throughout the fiscal year, income is accounted on a cash basis except appropriation reimbursements which are recorded when billed. At June 30, the accounts are adjusted to a modified accrual basis. All earned but uncollected revenues and unbilled reimbursements are accrued, except revenue receivables which are fully reserved when estimated not to be collectible within one year.

Expenditures

During the year, appropriation expenditures are generally recorded at the time claims for payment are filed with the State Controller. At June 30, all valid expenditure commitments are accrued as expenditures. An exception to this procedure occurs when transfers of

money for capital outlay to the Architecture Revolving Fund are recorded as expended at the time of transfer even though the actual expenditures from the Architecture Revolving Fund may not occur until a later date.

### Liabilities

Retirement Plan - Regular employees of the Franchise Tax Board are members of the Public Employees' Retirement System (PERS) which is a defined benefit, contributory retirement plan. The amount the agency and the employees contribute to PERS is actuarially determined under a program in which contributions plus retirement system earnings provide the necessary funds to pay retirement costs as accrued. The board's share of retirement contributions for the year was \$5,175,019.

Vacation and Sick Leave - The Franchise Tax Board does not record the costs of vacation and sick leave at the time these benefits are accumulated. However, when they are used, the expenditures-personal services account is charged.

### Personal Income Tax Fund and Bank and Corporation Tax Fund

The Personal Income Tax Fund is a depository for personal income taxes which are collected, while the Bank and Corporation Tax Fund is a depository for collection of franchise and corporate income taxes. The personal income tax is imposed upon the entire taxable income of California residents and upon nonresidents' income derived from sources within California. Corporations, banks, and financial corporations are subject to franchise taxes for the privilege of exercising the corporate franchise in California. Corporate income tax is levied upon corporations not doing business in California but deriving income from California sources.

After refunds, all revenues of the funds become General Fund revenues and are available only for transfer to the General Fund. The State Controller maintains summary accounts of revenues, refunds, and transfers to the General Fund. All refunds are charged against current collections.

### Income

Throughout the fiscal year, income is accounted on a cash basis. At June 30, the accounts are adjusted to a modified accrual basis. Earned but uncollected revenues are accrued, except revenue receivables estimated not to be collectible within one year which are reflected in the Allowance for Deferred Accounts.

The board receives prepayments of taxes through personal income tax withholding and/or declaration of estimated tax. The prepayment of taxes is recorded as revenue earned when cash is received. This accounting practice is acceptable under the National Council on Governmental Accounting guidelines. It is impractical to recognize such prepayments as revenues of the period to which they apply unless the taxpayers' liabilities have been clearly established.

### Trust Accounts

The trust accounts maintained by the Franchise Tax Board comprise guaranty deposits in the form of cash, certificates of deposit, stocks, deeds of trust, promissory notes, personal property, and surety bonds. These guaranty deposits are required to assure compliance with provisions of the Personal Income Tax Law and the Bank and Corporation Tax Law.

Trust account transactions consist of receipt and return or application of the guaranty deposits.

### General Fixed Assets

Purchases of equipment are recorded as expenditures in the year of acquisition. Generally, assets valued at \$150 or more with a useful life of two years or more are accounted at the original cost or estimated cost. Donated fixed assets are recorded at their estimated fair value when they are acquired.

### Litigation

The FTB is involved in a number of legal proceedings and refund claims. These cover a wide range of tax matters. In the opinion of both legal counsel and agency management, final settlement of these matters will have no material adverse effect on the board's financial statements. Any payments resulting from adverse decisions will be charged to revenues in the future.

## 2. ACCOUNTS RECEIVABLE

Accounts Receivable at June 30, 1978 consist of these categories:

	<u>General Fund</u>	<u>Personal Income Tax</u>	<u>Bank &amp; Corp. Tax</u>	<u>Total</u>
Revenues	\$ 3,032	\$174,224,049	\$36,403,606	\$210,630,687
Reimbursements	734,350	--	--	734,350
Other	<u>63,699</u>	<u>--</u>	<u>--</u>	<u>63,699</u>
Total	801,081	174,224,049	36,403,606	211,428,736
Less: Allowance for Deferred Accounts Receivable	<u>2,271</u>	<u>98,237,430</u>	<u>17,637,093</u>	<u>115,876,794</u>
Accounts Receivable expected to be collected during the next fiscal year	<u>\$798,810</u>	<u>\$ 75,986,619</u>	<u>\$18,766,513</u>	<u>\$ 95,551,942</u>

Accounts Receivable with credit balances are presented as Miscellaneous Credit Balances in Taxpayers' Accounts within the liability section.

## 3. ACCOUNTS RECEIVABLE - WITHHOLDING

The Personal Income Tax Withholding Program is administered by the Department of Benefit Payments under contract with the Franchise Tax Board. The contract covers the collection of personal income taxes withheld from employers, the auditing of employers, and other administrative functions. In administering this program, the Department of Benefit Payments is responsible for creating and collecting accounts receivable from the employers.

## 4. ACCOUNTS PAYABLE

Accounts payable include all unpaid liabilities for goods and services received as of June 30, 1978. Accordingly, they also include liabilities for which disbursement requests were submitted to the State Controller by June 30, but which had not been paid as of that date.

5. LIABILITY FOR INSTALLMENT  
PURCHASE CONTRACT

This account represents the unpaid principal balance of \$2,675,185 at June 30, 1978 for the cost of acquiring EDP equipment through an installment purchase contract. The total liability is payable in 60 equal monthly installments with annual interest of 8.5 percent. Total payments to June 30, 1978 (including interest of \$140,756) amounted to \$425,024.

6. DUE TO UNEMPLOYMENT FUND

The balance of this account represents excess remittances made by the Department of Benefit Payments to the Personal Income Tax Fund.

7. DUE TO THE GENERAL FUND  
(CONTROLLER'S ACCOUNTABILITY)

These are amounts for transfers to the General Fund - Controller's Accountability as of June 30, 1978:

	<u>Personal Income Tax Fund</u>	<u>Bank &amp; Corp. Tax Fund</u>	<u>Total</u>
Revenues collected for the General Fund	\$ 4,655,530,126	\$ 2,077,586,863	\$ 6,733,116,989
Less: Remitted to the General Fund	(4,535,474,449)	(2,053,322,486)	(6,588,796,935)
Due from General Fund	<u>(42,617)</u>	<u>--</u>	<u>(42,617)</u>
Due to the General Fund	<u>\$ 120,013,060</u>	<u>\$ 24,264,377</u>	<u>\$ 144,277,437</u>

8. ENCUMBRANCES OUTSTANDING

Encumbrances outstanding include all valid commitments against budget appropriations for which no goods or services have been received by June 30.

9. OPERATING CLEARING

This account is the connecting link between the Franchise Tax Board's portion of the General Fund and the State Controller's central accounts of the General Fund. The amount of \$1,526,845 represents receivable from the Special Account - Tax Relief and Refund Account in the General Fund at June 30, 1978, and is presented as due from the General Fund (Controller's Accountability).

10. RENTAL COMMITMENTS

These are the future minimum rental commitments for noncancelable operating leases for the year ended June 30, 1978:

1979	\$2,063,701
1980	2,057,437
1981	2,012,997
1982	1,932,752
1983	1,910,172
through 1988	<u>5,554,420</u>

Total Minimum Lease Payments \$15,531,479

Total rental expenses for all leases of premises amounted to \$2,074,857 for fiscal year 1977-78 and \$1,878,416 for 1976-77.

11. SUPPORT APPROPRIATION

This is the portion of the General Fund which the legislative budget act allocated to the Franchise Tax Board.

12. REIMBURSEMENTS

The Franchise Tax Board provides electronic data processing and other services to various other state agencies and entities. Costs of providing these services are recovered through reimbursements.

13. TRANSFERS FROM OTHER FUNDS

This account contains transfers of funds from Personal Income Tax Fund, Unemployment Compensation Disability Fund, and General Fund appropriation for renters' credits to cover refund claims the State Controller pays from the General Fund--Special Account, Tax Relief and Refund Account. The Controller's Special Account was established on March 24, 1978 to hold monies for personal income tax refunds, renters' credits, and excess disability insurance payments. These are total transfers and payments from March 24, 1978 to June 30, 1978:

Personal Income Tax Refunds	\$479,178,923
Renters' Credits Allowed	77,366,564
Excess Disability Insurance Payments	<u>8,391,212</u>
TOTAL	<u>\$564,936,700</u>



14. PRIOR YEAR ADJUSTMENT

This account shows the difference between the net amount of expenditures, abatements, and reimbursements accrued as of the previous June 30 and the actual amount of expenditures made and abatements and reimbursements realized during the current fiscal year (including accruals) for prior year appropriations no longer available for encumbrance.

#### OTHER INFORMATION

As an integral part of our examination, we reviewed the board's accounting procedures and related system of internal accounting control to the extent we considered necessary to properly form an opinion concerning the fairness with which the board's financial statements present financial position and results of operations in accordance with generally accepted accounting principles consistently applied. Our review enabled us to suggest improvements which would result in better operating procedures and better operating controls. A management letter describing suggested operating improvements was issued to the board in conjunction with certain recommended adjusting entries necessary in order to achieve compliance with generally accepted accounting principles.

The board fully concurs with the suggested operating improvements and adjusting entries.

cc: Members of the Legislature  
Office of the Governor  
Office of the Lieutenant Governor  
Secretary of State  
State Controller  
State Treasurer  
Legislative Analyst  
Director of Finance  
Assembly Office of Research  
Senate Office of Research  
Assembly Majority/Minority Consultants  
Senate Majority/Minority Consultants  
California State Department Heads  
Capitol Press Corps